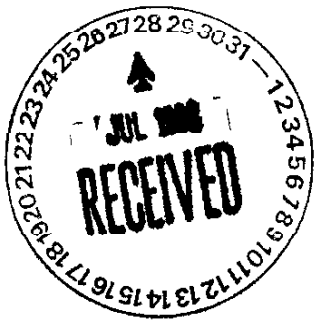
Susan M. Murray
Vice President
Tax

Enron Oil & Gas Company
P. O. Box 4362
Houston, TX 77210-4362
(713) 853-5156
Fax (713) 646 8842
smurray@enron.com



July 24, 1998

Minerals Management Service
Royalty Management Program
Rules and Publications Staff
P.O. Box 25165, MS 3021
Denver, Colorado 80225-0165

Re: Further Supplementary Proposed Rule, Establishing Oil Value for Royalty Due on Federal Leases, 63 F.R. 38335, July 16, 1998.

Messrs. And Mesdames:

Enron Oil & Gas Company ("EOG") appreciates this opportunity to offer further comments on the oil valuation rules proposed by the Minerals Management Service of the United States Department of the Interior. EOG has previously participated in this rulemaking procedure through the Independent Petroleum Association of America ("IPAA") and the Domestic Petroleum Council ("DPC"), trade associations of which EOG is a member. EOG endorses the prior comments filed by IPAA and DPC in connection with this rulemaking, as well as the additional comments filed by those organizations in connection with the referenced Further Supplementary Proposed Rule.

EOG also appreciates MMS's efforts to clarify the proposed Section 206.102(c)(2)(ii) concerning the lessee's duty to market oil for the mutual benefit of the lessor and the lessee. Various industry comments have expressed concern that the proposed provision could be used by MMS to "second guess" the lessee's marketing decisions, thereby forcing the lessee to use index-based valuation methods, even if the sale in question is at arm's-length. In response, MMS has stated that "[l]essees generally may structure their business arrangements however they wish, and absent misconduct, MMS will look to the ultimate arm's-length disposition in the open market as the best measure of value." MMS has further stated that the provision's purpose is to protect royalty value if a lessee were to enter into a substantially below-market transaction for the purpose of reducing royalty. The text of the proposed Section 206.102(c)(ii) has been modified to provide that "MMS will not use this provision to dispute lessee's marketing decisions made reasonably and in good faith. It will apply only when a lessee or its affiliate inappropriately sells its oil at a price substantially below market value." EOG shares the concerns expressed by IPAA and DPC regarding this language as more particularly described in their comments in connection with the supplementary proposal.

EOG also wishes to express one further concern. The implementation of the rule as proposed will impose significant compliance costs in terms of both personnel and information systems redesign by both the lessee/producer and any marketer of crude oil with which it is affiliated. These burdens can be particularly significant in instances in which the lessee/producer's federal crude oil volumes constitute a relatively small fraction of the marketer's total crude oil purchases. Once crude oil purchased from the affiliated producer/lessee has been commingled in the transportation system by the marketer, it can no longer be physically traced. The marketer is thus forced to determine the weighted average resale price of *all* downstream volumes sold in order to estimate the resale value of the lessee/producer's federal crude.

A crude oil marketer in such an instance may be required to radically change its current business practices and information systems in order to allocate the proceeds of large downstream dispositions of crude oil in order to provide the information necessary to establish the royalty value of small volumes of federal crude oil purchased from its affiliated lessee. The marketer may determine that the increased compliance costs are so significant given the pricing environment, small volumes to be valued in relation to its overall sales volumes, and the small margins involved that it cannot economically justify purchasing oil from its affiliate. In such cases, the lessee/producer must then look only to available arm's-length markets for the sale of its crude.

We are concerned that MMS could use the proposed rule to question the decision to *only* market federal oil under arm's-length arrangements. Accordingly, EOG seeks further clarification of the proposed rule to provide that a lessee will not be deemed to violate its duty to market by *not* selling its federal oil production to its affiliate but instead will look solely to available arm's-length markets and base its royalty values on the proceeds of such arm's-length sales.

Thank you very much for the opportunity to offer our views on this matter.

Sincerely,

Enron Oil & Gas Company

Susan M. Murray
Vice-President Tax & Government Affairs